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INFO CIS COLLECTIVE
RUEHBJ/AMEMBASSY BEIJING 0061
RUEHBS/USEU BRUSSELS 0002
RUEHBUL/AMEMBASSY KABUL 0088
RUEHIL/AMEMBASSY ISLAMABAD 0267
RUEHKA/AMEMBASSY DHAKA 0206
RUEHKT/AMEMBASSY KATHMANDU 0203
RUEHLM/AMEMBASSY COLOMBO 0206
RUEHNE/AMEMBASSY NEW DELHI 0255
RUEHNT/AMEMBASSY TASHKENT

UNCLAS SECTION 01 OF 03 TASHKENT 000921

SENSITIVE
SIPDIS
DEPARTMENT FOR SCA/CEN
EEB/IFD/OMA
AND EEB/EPPD

E.O. 12958: N/A

TAGS: [ECON](#) [EFIN](#) [SOCI](#) [UZ](#)

SUBJECT: UZBEKISTAN: DESPITE CLAIMS, ECONOMIC CRISIS HITS HOME

11. (SBU) SUMMARY. First quarter macroeconomic results show that the real sectors of the Uzbek economy are already facing serious problems created by the downturn in the world economy. Despite GOU claims to the contrary, analysis of official statistics indicates that total exports in the first quarter of 2009 decreased by 5 percent while imports grew by 24 percent. The export share of hydrocarbons was 52.5 percent -- three times higher than in the same period last year -- thereby pointing to a significant reduction of non-energy exports. Uzbekistan's positive trade balance in the first quarter was achieved mainly due to high prices for natural gas and a strong import substitution policy. Continued weakness in the demand for gas in Europe and the CIS may begin to offset this factor in subsequent quarters. Sources in various industry sectors unofficially admit that many factories are not operating at full capacity due to a lack of demand. International experts expect that the Uzbek economy will demonstrate growth in 2009, although much depends on the GOU's ability to meet and address the economic challenges created by the global economic crisis. END SUMMARY

FIGURES DON'T LIE, BUT LIARS CAN FIGURE

12. (SBU) An official report issued by the State Statistics Committee of Uzbekistan says that exports in the first quarter of 2009 totaled USD 2.5 billion and increased year-on-year by 6.1 percent. However, if compared with the same GOU statistics from last year, exports in the first quarter of 2008 totaled USD 2.6 billion, which would indicate a decrease of about 5 percent. At the same time, imports grew significantly -- by 24 percent to USD 2.3 billion from USD 1.8 billion (year-on-year). The positive trade balance in the first quarter was achieved mainly due to high prices for natural gas and the GOU's strong import substitution policy, implemented partially through the withholding of currency conversion to importers. The share of cotton in total exports dropped to 8.8 percent compared to 16 percent in 2008 (year-on-year), while the share of hydrocarbons increased from 16.8 percent to 52.5 percent. The share of machinery (mainly cars

produced by the GM-Uzavtosanoat joint venture for export to the Russian and Kazakh markets) also declined to 2.2 percent from 8.3 percent in 2008.

13. (SBU) Uzbekistan's largest trading partner is still Russia at USD 1.1 billion for the quarter of 12009. Exports to Russia increased by about 50 percent -- from USD 411 million to USD 603 million year-on-year -- due mainly to increased gas prices, while imports have decreased from USD 519.5 million to USD 453.4 million. The largest non-CIS trade partners are China (USD 677 million) and Switzerland (USD 594 million). The case of Switzerland is particularly interesting, as trade turnover with this country in the first quarter of 2008 was only USD 205.3 million (USD 1 billion for the year as a whole). This dramatic increase in trade with Switzerland reflects a gas export scheme that involves a Swiss subsidiary of Gazprom Germania called ZMB Schweiz and a company called Zeromax, which belongs to "private Uzbek shareholders." (COMMENT: First Daughter Gulnara Karimova is believed to be closely tied to Zeromax, which is registered in the tax haven of Zug.)

CRISIS HITS INDUSTRY

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14. (SBU) It is difficult to make objective assessments of the real consequences of the crisis in Uzbekistan, as most statistics are not publically available or are not reliable. Moreover, official media do not report any "bad news" about the domestic economy. However, the reduction of total exports and the increased share of gas in their structure demonstrate a significant reduction of other non-energy exports.

15. (SBU) The textile industry, considered one of the most promising export oriented sectors in Uzbekistan with strong local content potential, faced serious challenges due to a sharp drop in external demand. The Deputy Hokim (Governor) of the Shaikhontohur district of Tashkent City unofficially told us that four textile factories in his district have been idle since January because of a collapse in sales. These companies have no money to pay salaries, forcing them to cut jobs, and local banks will not extend credit to augment their working capital. The Turkish manager of the foreign-owned Sirkachi textile factory said that many textile joint-ventures are not operating and are having a hard time selling finished goods. According to his assessment, about 500 people have lost their jobs in textile factories in the city of Tashkent alone. Many Turkish investors are trying to sell their assets in the country. An Indian investor who owns the large Spentex Textile Company said that he has already lost USD 25 million in 12009.

16. (SBU) The automotive industry, another large export-oriented sector of the Uzbek economy, has also been adversely affected by the crisis. GM-Uzbekistan sales in Russia, the main export market for the company, were 18,196 units in January-April 2009, which is 45 percent less than in the same period in 2008. The company has had to sell its most popular models on the domestic market for U.S. dollars in order to "imitate" export sales.

17. (SBU) The energy sector has been the main generator of Uzbekistan's export earnings in 2009. The export of energy in the first quarter grew to USD 1.3 billion from USD 662 million in 2008 thanks

to an export price that has nearly doubled since last year. However, the sustainability of these prices is uncertain. Russia, the main importer of natural gas from the region, is facing significant problems. First, the demand for Russian gas in the European Union in February-March fell by 60 percent (year-on-year); second, Ukraine, the largest gas importer in the CIS, reduced its gas imports by more than 40 percent, and CIS countries overall imported only 55 percent of last year's volumes; third, domestic demand for gas in Russia fell by 6-8 percent. This has led Russia's Gazprom to reduce its gas imports from Central Asia. According to industry reports, Gazprom has reduced its intake of gas from Turkmenistan by 90 percent since April 9, and this means that Uzbekistan is generating less income from transiting Turkmen gas to Russia. Those same reports say Gazprom is trying to renegotiate prices and volumes for 2009 with both Turkmen and Uzbek suppliers.

COMMENT

18. (SBU) The GOU has been taking every opportunity to repeat the message that Uzbekistan is less affected than other countries by the global financial crisis thanks to the smart economic policies of President Karimov. To some extent this

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is true. The GOU's projection for GDP growth in 2009 is 8 percent. International experts and IFIs also believe the Uzbek economy will demonstrate stable GDP growth in 2009: the IMF's projection is 7 percent, the World Bank's is 5-6 percent, and the Economist Intelligence Unit predicts 2.5 percent growth.

19. (SBU) Uzbekistan is unlikely to stave off the impact of the crisis much longer. Macroeconomic results in the first quarter and the situation in various industries show that the real sectors of the Uzbek economy already face serious problems created by the sharp deterioration in the external environment. Uzbekistan's economic performance in 2009 will depend on the GOU's ability to meet and address economic challenges created by the crisis. The GOU's current policy, focused on import substitution and exports, needs to be reconsidered with more attention to domestic consumption and improvement of the investment climate in non export-oriented sectors.

NORLAND